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American Woman's Society of Certified Public Accountants

American Society of Women Accountants

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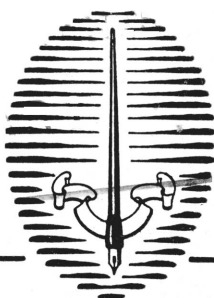
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J U N E

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Official Publication

AMERICAN WOMAN'S SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN SOCIETY OF WOMEN ACCOUNTANTS

Our
44th
Year

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When writing to advertiser kindly mention THE WOMAN C. P. A.

EDITORIAL

ANNUAL MEETING

Grand Rapids is making enthusiastic plans to entertain the joint annual AWSCPA-ASWA meeting on August 8-9 at the Pantlind Hotel, and is expecting a banner attendance.

A program is being planned which will combine constructive sessions with top-notch hospitality. We are especially fortunate in our banquet speaker, who is Frank E. Seidman of the nationally-known public accounting firm of Seidman & Seidman. He is a brilliantly entertaining speaker and you are promised a treat.

A feature of the business sessions will be a forum, lead by Evelyn Forsyth, on the timely and fascinating subject of *Employee-Employer Relations*. Since both employers and employees are represented in our societies something helpful should evolve from this discussion, which will cover the following phases:

1. What the employee expects of the employer.
2. What the employee thinks he owes the employer.
3. What the employer expects of the employee.
4. What the employer thinks he owes the employee.

Friday will be devoted to business and administrative sessions and to social features. It has been a busy year and one of outstanding accomplishment, and the officers and committees will have many matters to present to you.

On Saturday, in addition to the forum, there will be a breakfast, a reception, and the banquet. Meetings of the outgoing boards will be held Thursday afternoon and of the incoming boards on Sunday morning.

Our conferences are memorable occasions. If you have never before attended one you will find a delightful surprise awaiting you at Grand Rapids.

ATLANTA CONFERENCE

A joint regional conference of AWSCPA and ASWA was held in Atlanta at the Biltmore Hotel on Saturday, May 3. A large representation of members of both societies in the eastern territory attended and participated in the formal discussions, and enjoyed the surpassing entertainment features planned for the visitors.

The conference opened with a luncheon on Saturday in the Empire Room, at which Susie Sudderth, president of ASWA, presided. The program included talks on various phases of chapter activities. Phoebe Comer of Indianapolis discussed the AWSCPA award; Jean Neil of Terre Haute, membership; Virginia Wood of Atlanta, programs; and Jennie Palen of New York, legislation.

At the dinner, held in the Pompeian Room on Saturday evening, which marked the occasion of Atlanta chapter's annual public relations meeting, Marion Frye of Cleveland, chairman of the national public relations committees of AWSCPA and ASWA, talked on *Public Relations*. The principal address was delivered by Dr. Catherine Sims, noted historian and lecturer, who is associate professor of history at Agnes Scott College. Her subject was *The United Nations, The United States, The U. S. S. R.—International Triangle*, emphasizing the importance of public relations, or understanding of problems involved, in the establishment of any permanent world peace.

OLIVER BILL

The New York CPA law has been amended to grant waiver certificates to "applicants who have reached the age of 40 years and present evidence of fifteen years' experience in the intensive application of accounting principles and auditing procedures satis-

factory to the State Board." Enactment of the bill was vigorously protested by accounting societies all over the country as well as by bankers, credit men, and the heads of industry. In signing the bill the Governor issued a word of warning that it could be approved solely on the assurance by the Education Department that the powers granted by it would be used only in exceptional cases. He continued:

"If after a year's experience the Department and the Board of Examiners find this law unworkable or too loose, it can and should be modified or repealed. The high standard of public accountancy in New York, which led the nation in establishing such standards, must not be lowered."

Regulations have now been issued by the State Education Department respecting the character of application to be made under this bill. From these regulations it appears that it is the intention of the Department to be most circumspect in granting certificates under this amendment.

Every effort is being made to minimize any evil effects of the bill and to bring about its speedy repeal.

NEW LEGISLATIVE THREAT

No sooner had the Bercu case been decided (although it appears probable that it will be appealed) than another attack was aimed at accountants.

As we go to press there is before the Committee of the Judiciary of the House of Representatives a bill (HR2657), sponsored by committees of the American Bar Association, aimed toward the creation of a monopoly for lawyers in all work before the Bureau of Internal Revenue, the SEC, the FTC, and all other administrative agencies of the government.

This bill, known as the "Administrative Practitioners Act," would set up a credentials committee of five members, at least four of them lawyers, appointed by the Attorney General, which would issue credentials to persons admitted to practice before Federal agencies. Credentials would be issued upon application to members of the bar merely upon showing that they are in good standing. Non-lawyers could receive credentials to practice only if the agency concerned adopted rules providing for their admission and certified to the credentials committee that in the agency's "informed judgment" the applicant possesses "scientific training, experience, social competence,

peculiar technical ability, knowledge of legal requirements, and other qualifications requisite for the adequate performance of the duties of the practitioners for the protection of clients and attainment or preservation of their rights." A further provision is that the credentials committee require evidence that the applicant possesses knowledge of professional responsibilities as well as moral character, repute, and fitness. Upon the acceptance by the credentials committee of such evidence, it would issue revocable credentials permitting practice limited to the extent specifically authorized by the agency concerned.

AWSCPA has filed protests with members of Congress against this proposed legislation, pointing out that enactment of the bill is not in the public interest because it would restrict the right of business to utilize the services of those best qualified to represent it. All members are urged to do their utmost to bring about the defeat of this bill.

PRONOUNCE IT CORRECTLY

This short discourse will deal with geographical names and is inspired by an announcement of the next meeting of the American Institute of Accountants which, happily, is to be held in Miami.

While we are still in the North we may call it *Mee ah' mee* and receive only an occasional pitying glance, but in Florida such pronunciation will probably draw loud guffaws. So let's go into training at once and learn to say *My ām' ī* and save ourselves later embarrassment.

Detroit is another city whose name receives disrespectful treatment. What is the mysterious something which causes so many people (most of whom know better) to say *Dee'troit*? A very unmysterious something called a dictionary would caution them to accent the last syllable, not the first.

In New York State we have a charming mountain range called Shawangunk. At least it *spelled* Shawangunk but those who are native to the region, those who consult dictionaries, and those who read a certain road sign at the foot of the mountains know that it is pronounced *Shon' gum*. We don't know why—unless it was done to show the British that they are not the only ones who can carry off that sort of thing with aplomb.

JENNIE M. PALEN

COAST - TO - COAST

PAULA E. REINISCH, *Grand Rapids, Michigan*

ATLANTA

Outstanding recent events were the annual public relations dinner and joint AWSCPA-ASWA spring conference, reported elsewhere in this issue.

At the May session of the study group series Ethleen Lasseter discussed *Bank Cost Accounting*.

Lucile Taylor, Susie Sudderth, and the Crawford twins upheld chapter laurels in the "Quiz of Atlanta" radio program.

Hester Walker and Virginia Wood attended the regional spring conference of the Association of Bank Women in Jackson, Mississippi. Lucile Taylor, Ruby and Ruth Crawford, and Ethleen Lasseter attended the annual convention in Detroit of the American Institute of Banking, where Ethleen addressed the trust and investment conference on *Taking the Guesswork Out of Trust Costs*.

New members: Roberta Armstrong, Grace Huey, Hebb Easterling, Katherine McAnally.

CLEVELAND

An educational forum and membership tea crowned the year's events. Outstanding women accounting students and teachers from four counties attended. Those on the program included Marion Frye, Katherine Pfeifer, M. Louise Gates, Florence Bryant, Gene Bearmore, Jean McElroy, Helen Spoerke, Charlotte Donnelly, Gene Collins, and Ethel Bemis.

Chapter members attended en masse the third regional cost conference of Cleveland chapter NACA.

Cleveland chapter has become affiliated with Cleveland Inter-Club Council of Business and Professional Women. Gertrude Hunkin and M. Louise Gates are representing ASWA.

Dale Brown, vice-president of the National City Bank of Cleveland, spoke in March on *Public Relations*, which he defined as "the art of analyzing, influencing, and interpreting a person, an idea, a group, or a job, so that their behavior will conform to the greatest degree with the public interest."

Marion Frye and Edna Brixner were guests of the Controllers Institute of America at the Athletic Club.

Mrs. Malcolm Lee McBride gave a *Travelogue on Mexico* with colored films in May. Guests included members of NACA, CPA,

and Controllers groups and presidents of women's clubs.

New members: Gene Collins, Linnea Saukonen, Anne Popeney, Emma Seudert, Elizabeth Lange, Helen Edmonds, Ethel Beuse, Charlotte Biefer, Ethel M. Perrin.

CHICAGO

Ruth Provus, attorney with the Wage and Hour Division of the Labor Department, addressed the March meeting and Gertrude Mettel, assistant professor of business law at the University of Chicago, spoke in May.

A "quiz committee," under the direction of Grace Keats, highlighted the June meeting.

New members: Elizabeth Collender, Betty J. Latick, Virginia Platenka, Bernice Williams.

DETROIT

Grace Dimmer has been elected treasurer of the Intergroup Council of Michigan. AWSCPA is a participant in the national organization, whose aim is to encourage the appointment of women to government offices.

Federal Estate Taxes were discussed by the study group under the leadership of Cecil Miner.

Women attorneys from the metropolitan area were guests in April, as were members of our new Toledo chapter.

Chapter members attended the NACA Ann Arbor conference.

GRAND RAPIDS

At a dinner of the Business Women's Club, chapter members, as honor guests, enjoyed a talk by Crosby Kelly of the Ford Motor Co. entitled *The Trouble with Jobs is People*.

Alice Walsh led the discussion group on *Methods of Speeding up Purchase Invoices*.

Several Muskegon members attended the educational program, and the annual public relations banquet.

Robert J. McBain, CPA, in charge of the accounting department of Davenport-McLachlan Institute, discussed the *Merits of Advanced Accounting* in May.

New member: Ann Swigris.

INDIANAPOLIS

The accomplishments of the spring session of Indiana's State Legislature were described by the League of Women Voters,

with Representative Bert McCammon and Mrs. McCammon leading the discussion, in March. The Women's Personnel Association attended as guests.

New member: Velora Beghtel.

LOS ANGELES

Aurora Pinard Defour, as the new president of Hollywood Business and Professional Women's Club, received considerable newspaper publicity.

Lucile Titus has received her public accounting certificate.

Katherine Adams Stoll, of the law firm of Herlihy and Herlihy, discussed *A Career of a Woman Lawyer* and *California Labor Legislation Affecting Women* at the March meeting.

Dr. J. Michael Hagopian, U. S. C. professor, gave an engrossing talk in April on *Asia*. Stationed in India and Australia during the war, Dr. Hagopian is an authority on Asiatic problems.

Frances A. Kreiling was honor guest in April, as reported elsewhere in this issue.

New members: Marian Monroe, Edna H. Bartz, Agnes G. Austin.

MUSKEGON

Estates and Trusts was the topic of M. W. Kimball, vice-president and trust officer of the Hackley-Union National Bank, at the March meeting.

Thomas J. Wilson, state personnel director of the Civil Service Commission, Lansing, spoke on *Civil Service* in April.

Guests at the public relations banquet included members from NACA, Grand Rapids chapter ASWA, CPA's, and guest speakers of the past year.

New members: Marie Black, Elizabeth Shannessy.

NEW YORK

Mrs. Leslie Black of the National Women's Party spoke on *Legislation Affecting Women and The Equal Rights Amendment* in March.

J. Stanley Halperin, attorney, spoke in April on *Issuance of Obligations Upon Incorporation*, and in May Leo Mattersdorf, CPA, spoke on *State Taxes*.

Meeting jointly with the Wall Street Discussion Group, members were privileged to hear a rousing talk by Elinore M. Herrick on *Labor Relations*.

SAN FRANCISCO

Judge Theresa Meikle was the speaker at the April meeting.

The two-minute talks by members about their own business have stimulated interest and increased attendance. Marion Melbin's talk was so vivid the audience felt it was on a tour through a sugar refinery.

New member: Eva Becken.

SPOKANE

Al Gordon Lee, speaker at the April meeting, discussed *Federal and State Estate and Gift Taxation*.

Interesting programs this season have included *Unemployment Compensation Benefits, Carry-overs, Carry-back, Investments, Personality in Action*, and *Payroll Accounting*.

The installation banquet was held in May. Ten members will attend Seattle's annual banquet.

Spokane is pleased to report six new members this year, all actively interested.

SEATTLE

The annual installation banquet and joint meeting with Spokane chapter will be held on June 21.

TERRE HAUTE

Seven members attended the spring conference in Atlanta.

The public relations dinner was held in May. Employers and guest speakers of the past year were guests.

How Well Prepared Are We to Defend Ourselves was the subject of a panel discussion in June. A group from Indiana State Teacher's College were guests.

NEW AWSCPA MEMBERS

Esther Leah Hertz, 333 Roebling Street, Brooklyn 11. With Sirota, Kraus and Gleason, New York 10. College of the City of New York, BBA.

Mrs. Bernice Kraditor Haber, 1280 Ocean Ave., Brooklyn 30. With Kraditor & Haber, New York 7. Brooklyn College, N.Y.U., and and Brooklyn Law School. BA and MBA.

Mrs. Tennie Crews Leonard. With Harry M. Jay and Associates, 1301 Columbia Mutual Tower, Memphis. West Tenn. State Teachers College. BS. Member Tenn. Society of CPA's.

Marie Snekvik, 3015 West 58th St., Seattle 7. With Northwest Bolt & Nut Co., Seattle 7. U. of Wash. BA and MA.

Jean D. Colavecchio. With Ernst & Ernst, 1702 Industrial Trust Bldg., Providence. Northeastern U. Member National Association of Cost Accountants.

MARY LANIGAR, C.P.A., Beverly Hills, California

FEDERAL TAX ADMINISTRATION AND PROCEDURE

Federal taxes are administered by the Bureau of Internal Revenue of the Treasury Department, which is under the supervision of the Commissioner of Internal Revenue. The Income Tax Unit deals with income taxes, and the Miscellaneous Tax Unit administers estate taxes, excise taxes, and other miscellaneous Federal taxes. Offices of Collectors of Internal Revenue and of Revenue Agents in Charge are situated in larger cities throughout the country. The Collectors' offices are responsible for actual collection of tax revenue and the Agents' offices are charged with investigation of returns and determination of tax liability.

The computation of tax by the taxpayer upon his return is actually a self-assessment of tax and an authorization for collection of the amount shown by the return. If the taxpayer later determines that his liability was understated, he may file an amended return and pay the additional tax. If he determines that his tax has been overpaid he must file a refund claim setting forth under oath the grounds upon which the refund is claimed. A refund claim must be filed on the prescribed form (843), and it must be filed within the period of statutory limitations (usually three years after due date of the return or two years after payment of the tax whichever is later).

After returns are filed they are checked for mathematical accuracy and notices of errors in computation of tax are mailed quite promptly. Many of the larger returns and certain of the smaller ones are referred of the office of the Revenue Agent in Charge of the division in which the return was filed for office or field audit. Employees of the Bureau of Internal Revenue have authority to examine records or take testimony from persons with reference to matters required by law to be included in the returns under examination. The taxpayer is furnished a copy of the Revenue Agent's report setting forth the results of the audit. If the report shows an overpayment of tax a proper refund claim must be filed to obtain the refund due. If the report shows an additional tax due, the letter accompanying it will usually notify the taxpayer that he has 30 days within which to protest the proposed adjustments. If he agrees to the adjustments he may sign a waiver consenting to the assess-

ment. Signing of a waiver (Form 870 or Form 874) saves interest as no interest is charged after 30 days from the filing date of the waiver. If the taxpayer does nothing when he receives the 30-day letter, the tax will be assessed automatically and the Collector will mail a demand for payment.

If the taxpayer does not agree to the Revenue Agent's findings, he must file a protest to the Revenue Agent in Charge. The protest should state the objections and all facts upon which the taxpayer intends to rely. The letter of protest should request a hearing if one is desired. If the protest is prepared by an attorney or agent, it should be accompanied by a signed statement that he prepared the protest and believes the facts to be true. Only an attorney or agent who is enrolled to practice before the Treasury Department may represent the taxpayer at a conference, and he should file a power of attorney and a fee statement before the conference. Certified public accountants who are lawfully engaged in active practice of their profession may be admitted to practice before the Treasury Department as agents.

If the conference in the office of the Agent in Charge does not result in a satisfactory settlement, the case may be submitted to the Technical Staff for a further hearing. The Technical Staff may reverse the Revenue Agent's findings and it has full authority to make final determinations.

If these hearings do not result in an agreement, the Agent in Charge will send a notice of the proposed deficiency to the taxpayer by registered mail. This notice is called a 90-day letter because it notifies the taxpayer that he has 90 days within which to file an appeal to the Tax Court. If no appeal is filed, the deficiency will be assessed. Upon receipt of the 90-day letter, the taxpayer may appeal to the Tax Court or pay the tax and file a refund claim later. If the refund claim is not acted upon within six months or is rejected, the taxpayer may bring suit in the District Court.

The Tax Court (formerly the Board of Tax Appeals) was created by law to review deficiencies asserted by the Commissioner with respect to income taxes and certain other taxes. The Tax Court has jurisdiction only after a deficiency has been asserted. It cannot decide issues pertaining to a year in which an overassessment was determined.

If a deficiency notice shows an excess profits tax deficiency and an income tax over-assessment, the Tax Court cannot decide the income tax issues. Petitions presented to the Tax Court must conform to prescribed rules and persons practicing before it must have been admitted to practice before the Tax Court.

Decisions of the Tax Court may be reviewed by the Circuit Court of Appeals. However, under the so-called Dobson rule decisions of the Tax Court on matters of law may be reversed, but its findings of fact may not be changed. A large number of tax problems are questions of fact for which a Tax Court decision would be final.

Either party may seek review of an Appellate Court decision by the Supreme Court by filing a petition for certiorari. The Supreme Court may refuse to hear a case and will usually do so unless there is a conflict of law in decisions of lower courts.

If the taxpayer has unsuccessfully exhausted all of his remedies for redetermination of a tax deficiency or has waived his rights to further contest the deficiency, the Commissioner is authorized to assess the tax. The running of the statute of limitations is suspended after the mailing of the 90-day letter until the issue is decided by the Tax Court.

In general, assessment must be made within three years after the last day prescribed by law for filing the return. In the case of a false or fraudulent return or no return, income taxes may be assessed at any time. The Commissioner and the taxpayer may consent in writing to an extension of the statutory period for the assessment of income taxes. If an error results in omission of more than 25% of the gross income reported on the tax return, the Government has a five-year period for assessment.

EXCISE TAX ON FUR ARTICLES

The Excise Tax Act of 1947 amended the retailer's tax on furs so that a greater number of fur-trimmed articles are now exempt. The tax applies to articles of which fur is a component material (such as a fur-trimmed cloth coat) only if the value of the fur at the time the article is made is more than three times the value of the next most valuable component material. This amendment applies to articles sold after April 1, 1947. Prior to this time the tax applied if the value of the fur exceeded the value of the next most valuable material. Retailers should obtain a statement of the values of component materials from the manufacturer.

NEW AWSCPA MEMBERS

(Continued from page 6)

Mary F. Williams, 2340 Robinhood, Houston 5, Texas. With Davidson, Ross & Co., Houston 2. U. of Texas. BBA. Member Texas Society of CPA's.

Marguerite Gibb, CPA, 501 Orpheum Bldg., Seattle 1. Auerswald's Accounting and Secretarial School. Member Seattle Chapter, ASWA.

Mrs. Patti Webb Leach, Box 720, Norman, Okla. With Office of Comptroller, U. of Okla. U. of Okla. BS in Business Administration. Member Okla. Society of CPA's and Beta Gamma Sigma.

Dorothy J. Sunshine, 324 East 15th St., New York. With Abraham Israelite, CPA. Brooklyn College, College of the City of N. Y. BA and MBA.

Virginia Evelyn Boyer, 449 Euclid St., Santa Monica, Calif. With Price, Waterhouse & Company, Los Angeles 14. U. of C. at L. A. BS.

* * *

Victory is always where there is unanimity.

—PUBLILIUS SYRUS

THE PRESS

We are intensely gratified to report that the March 1947 issue of *The Accountants Digest* contains reprints of six articles from *The Woman C.P.A.* They are:

Public Accounting Laws of Illinois, by Mary C. Gildea.

Mechanized Accounting, by Katherine M. West.

Municipal Accounting, by Agnes Van Dyke.

Postwar Accounting Problems, by Mervyn B. Walsh.

Where do We Go from Here? by Lili Pinkul Fowler.

Federal Old Age and Survivor Insurance, by Joan A. Olson.

The Spokesman and the *Bulletin* of The Georgia Society of C.P.A.'s each contain condensations of an article by Marion Frye which describes the functions of our two societies.

The Fiftieth Anniversary Bulletin of The New York State Society of C.P.A.'s contains an article entitled *A History of Women in Public Accounting*, by Jennie M. Palen.

Alice Aubert is just concluding a successful year as president of the New York chapter of ASWA, having been its corresponding secretary from 1939 to 1941.

She also served the national ASWA organization as first vice president from 1941 to 1943 and as second vice president from 1939 to 1941.

She holds an A.B. degree from Hunter College, where she majored in Statistical Science, and has taken post graduate work at Columbia University School of Business toward a degree of M.S. in Accounting.

Now in her third year on the staff of the public accounting firm of Hurdman and Cranstoun, her experience includes three years of war contract accounting for Shreve, Lamb & Harmon—Fay, Spofford & Thorndike, and two years experience as assistant to the treasurer of Authors League of America, Inc., who at that time was Gertrude Priester.

As you may judge from this comprehensive article, Miss Aubert is frequently assigned to bank examination engagements, which, as those in public accounting offices can testify, have a fascination all their own.



HIGHLIGHTS OF A BANK EXAMINATION

By ALICE H. AUBERT, A. B.

In the field of commerce and industry the substantiation of the correctness of the assets and liabilities of a business, while formally designated as an examination of financial condition, is more commonly referred to as an audit. Rarely is the latter term applied to the verification of the financial condition of a bank. A bank audit is almost invariably denominated an examination, and the independent or outside auditor an examiner.

Bank examinations may be made by government or state examiners, by directors, or by public accountants retained by the board of directors or other administrative officials of a bank. The term "bank examination" in itself has a broad scope for the examination to be made may cover any one of the several different types of financial institutions, or very possibly a combination of them. Whether the subject of audit is a national bank, a state bank, a savings bank, or a trust company, certain procedures and practices are common to all, and the examinations therefore are essentially the same. They differ only in so far as there are legal restrictions peculiar to the operations of the bank as a result of the jurisdiction under which the bank is organized. A brief description of these differences among the various forms of bank organizations will clarify the reasons underlying some of the examining procedures to be

outlined, and will differentiate as to the type to which certain of them are applicable.

Banks may operate under charters granted either by the Federal government in conformity with federal laws, or by state governments in conformity with the laws of the respective states. Those banks formed under federal law are known as national banks, and are obliged to be members of the Federal Reserve System. They are subject to all the provisions of the Federal Reserve Act, one of which is the requirement that they maintain certain minimum reserves. They are permitted by the Federal Reserve Board to operate trust departments. Since national banks are primarily commercial banks, their liabilities are for the most part payable on demand. Therefore their assets should be of a very liquid nature, and generally consist of demand loans, loans of short maturities, and investments which can be readily sold. Restrictions imposed on national banks include: prohibition, with certain clearly defined exceptions, of investing in stocks of industrial and similar companies, or in any stock other than that of the Federal Reserve Bank of its district and certain institutions engaged in financing foreign trade; limitations with respect to real estate loans; and limitations as to the total amount that may be loaned to any one person or concern. They may hold no real estate other than that necessary for

the accommodation and transaction of their business, and real estate acquired in settlement of debts, which latter type may be held only for a period not exceeding five years, unless extended by permission from the Comptroller of the Currency.

Commercial state banks, savings banks, and trust companies are formed under the laws of the various states, as to which there is not complete uniformity. State banks may become members of the Federal Reserve System, and thereby become subject to the provisions of the Federal Reserve Act. As to state banks which are not members of the Federal Reserve System there are few restrictions by law, though many under State Banking Department regulations, on real estate loans, similar limitations on loans to individuals as those applying to national banks, and in some states wider powers with respect to investments. Upon request and qualification state banks may operate trust, safe deposit, investment, title, and surety departments.

The purpose of savings banks is to receive deposits, invest them in capital securities, repay them when required to do so, and meanwhile, between receipt and repayment of the deposits, to pay interest thereon. Such deposits are for the most part, by nature, time deposits, and by law have a protection period for which payment of deposits may be withheld. Savings banks are restricted as to the type of investments they may hold, and diversification of investments is required. Apart from mortgages they must be readily marketable.

Trust companies may also become members of the Federal Reserve System, and while their primary business is fiduciary in character, they are permitted to operate banking departments subject to the same supervision and control as regular state banks.

Directors or trustees of all banks are charged by law with the duty of making periodic examinations of the institutions under their care. The scope of these examinations must meet certain minimum requirements. The directors or trustees may engage outside assistance in fulfilling their responsibilities. The extent to which outside assistance is required depends on the ability of those primarily responsible and the bank's ability to pay for the services to be rendered.

When public accountants therefore are called in their share in the examination must be clearly stated, and their work must be planned accordingly. It is, however,

probable that, in any case, it is the responsibility of the accountants to be sure that their own plans and those of the directors' committee together provide for an examination adequate to meet minimum legal requirements.

Before commencing an examination it is important first to know the type of bank organization to be examined, and to become familiar with the laws, restrictions, or special provisions affecting such a bank in its particular jurisdiction. Then a regular plan of examination should be made based on a survey of the bank to be examined, and on a consideration of accepted procedures. The survey is particularly important if it is a first examination, and should include inquiries in regard to the following:

1. The location and number of branch banks, if any.
2. The number and kind of tellers and their location in order that a sufficient staff may be assembled to handle the work.
3. The hours during which the bank is open to the public for business. This is important in order that the examination may be begun as soon as the bank closes its doors to the public, or at the moment the vaults are opened in the morning preparatory to opening its doors to the public for the day.
4. The securities owned and the number of files of investments, collateral, safekeeping, and notes, and where they are located.
5. The procedures followed in handling loans and mortgages.
6. The number and names of correspondent banks.
7. The methods of bookkeeping, the types of records kept, the number and nature of departments in the bank, and such other pertinent information concerning the accounts as may be required.
8. The period and extent of the examination, and the date of the last audit, the period it covered, and by whom it was made.

Regarding item seven above it is interesting to note that the organization and the methods of bookkeeping of most banks of a particular type are on a fairly uniform basis. This is due in part to the frequent examinations and close supervision maintained over banks, and in part to a general tendency toward standardization. In the course of an examination the bank examiner will usually come in contact with most of

the following departments or combinations thereof: receiving, paying, mail deposit, transit, clearing, collection, proof, loan, foreign exchange, trust, safe deposit, surety, real estate, and title insurance. Each of these departments usually maintains its own records, and prepares its own daily proofs. As soon as they are balanced the departmental proof sheets are sent to the general bookkeeping department for immediate posting, upon completion of which the latter department then prepares the daily statement showing the current financial condition of the bank. This statement includes the transactions of all of the departments of the bank with the exception of the trust department, for which a separate set of books is maintained. The accounts of the trust department do not appear on the general books of the bank except as to the control account for uninvested fiduciary cash and accounts representing income control.

The procedures to be followed in making an examination where the public accountants' responsibility is not closely limited by the examining committee may vary depending upon the institution to be examined, and the conditions prevailing in the particular organization at the time of the examination, but they generally consist of the following, though not necessarily in the order listed:

1. Counting cash, and simultaneously controlling and sealing for later examination and count, all items susceptible of manipulation, immediately upon entering the bank.
2. Examining, checking, and proving exchange items, and sending out letters of verification.
3. Preparing a schedule of loans, and examining, proving, and pricing loan collateral and evidences of indebtedness. In some cases further tests should be made by correspondence to insure the genuineness of the evidences of indebtedness.
4. Scheduling mortgages and examining supporting documents.
5. Scheduling and examining investments, and confirming those securities not in possession of the bank and available for inspection.
6. Taking, or obtaining and checking, a trial balance of the general ledger, as of the date of the examination.
7. Running tapes of the depositors' ledgers, and determining that all accounts included therein represent de-

posit liabilities, and the amounts of preferred liabilities. Consideration should be given to the desirability of selecting certain deposit accounts for confirmation by correspondence with the depositor.

8. Making a general analysis of other accounts, testing accrual of income, and vouching expenses.

In planning and preparing for a bank examination it is important to remember that it should take place at a time unannounced to both the officers and the staff of the bank. A great amount of care is usually exercised in this respect, the staff of the examiner being informed only at the latest possible moment. It is also important that the examination take place at the time of day most convenient to the bank to be examined, and for the type of examination to be made.

Although, as compared to other examinations, the procedures involved in an examination of a bank are relatively simple, they are in certain respects more difficult because so many of the procedures must be accomplished in so short a time as the assets of the bank cannot be immobilized for any length of time, and confirmation becomes impossible if a protracted delay occurs. This condition requires that the count of cash and cash items, and the examination and count of securities, notes, loans, collateral for loans, and items held for safekeeping be done promptly. The control of all assets must be sufficient to make impossible any transfers from one group to another to conceal a shortage or difference. In order to accomplish this all such items must be examined and counted simultaneously, either in fact or in effect. To do so in fact requires a staff larger than is usually available. Therefore it must be done in effect by the control and sealing of the physical assets of the bank which cannot be examined at the time of entering the bank. The items generally sealed are those heretofore enumerated. The seals used should be marked in some way so that they cannot be replaced or duplicated; they should be conspicuous, and adequate in size; and they should be controlled by the examiner and guarded carefully lest they should come into the hands of any of the bank staff.

After the examiner and his staff have entered the bank, and the examiner has made the necessary introductions, and has placed under his control and seal all cash and other requisite items, he assigns one

assistant to each teller to observe the teller while he balances his cash and prepares his proof sheet. The teller then should turn over his cash to the assistant assigned to count it. The count should always be made in the teller's presence. A summary of the count for each teller should be prepared, listing all cash items in detail. The teller's signature should be obtained on the summary as to correctness and receipt in full for the cash returned after count. If the entire cash count is not completed simultaneously, as is ordinarily the case, the cash that has been counted must be sealed until the other cash is finished. In small banks or where there are not a sufficient number of examiners to assign one to each teller, the practice has frequently been adopted of having all of the cash brought to a central point for count.

In counting the cash itself it is not always feasible to count every bill and coin. If the amount of cash is not too great all of it should be counted. If the number of pieces is great all loose bills and coins should be counted, and all packaged bills of ten dollars and over. A reasonable percentage of five and one dollar bills should be counted. Those not counted should be ruffed to determine their genuineness. The amounts by packages should then be totaled and checked to the tellers' proofs. Packaged coin should be handled to determine that it is not padded, and the packages should similarly be totaled and checked to the tellers' proofs. Bagged coin may be weighed or put through counting machines.

When the count of tellers' cash is completed, the vault cash, if not already examined, must be counted. The usual procedure is to have the examiner go into the vault with the head teller or the officer in charge of vault cash. The examiner breaks his seal and under his surveillance the cash is brought out of the vault to the examiner's assistants to count in the presence of bank officers. The same method of counting is here used as before mentioned.

A schedule of the cash count is then prepared and proved to the general ledger control account, and all cash items in the count are listed for later verification as to their propriety and disposition. Cash items are those which a bank accepts for immediate credit to depositors' accounts, or checks, coupons, or vouchers which form part of the tellers' cash and for some reason cannot be or have not been put through for payment or replacement by actual cash.

The next step after the cash count is to

count the exchange items. They consist of checks from the current day's business which must be sent to other banks for collection, or to the clearing house, or to correspondent banks. During the day, or at the end of the day in the presence of one of the examiners, bank employees will have sorted these checks by banks, and listed them, and placed them in separate envelopes marked for each bank. The auditor should prepare a summary showing the name of each bank and the amount. In each envelope a letter is inserted together with a stamped, return envelope requesting confirmation and information as to any checks returned unpaid. The envelopes are then sealed by the examiner and under his control are either delivered to the messenger or placed in the mail. When the letter of verification is returned it is checked against the summary.

Statements and confirmations of balances as of the date of the examination are also requested from the correspondent banks, which when received are reconciled and checked to summaries previously prepared from the bank's records.

Any items still remaining under seal are examined and released as soon as possible, that is, on the first day of the examination or, if not, then as early as possible thereafter. These will usually consist of investments, loans, collateral, and items held for safe-keeping. The investments should be examined to determine that all securities owned by the bank are accounted for, and that they are in the name of the bank or in negotiable form. The total of investments should be proved to the general ledger control, and those not on the bank premises, and therefore not subject to examination, should be confirmed by correspondence. The list of investments should be studied and their values established by reference to market quotations. The propriety and legality of the investments should be passed upon.

In regard to loans and loan collateral the former should be scheduled and proved, and it is the duty of the examiner to ascertain that all loans made by the bank, unpaid at the date of the examination, are evidenced by documents on file which are in good order, and that the collateral pledged, if any, is legitimate, is correct as to kind and amount, is in the possession of the bank or otherwise accounted for, is negotiable, and is sufficient in value to secure the loan. If any question exists or suggests itself as to the authenticity of notes, an inde-

pendent confirmation should be requested from the borrower. The line ledger should be scrutinized to determine that loans are suitably diversified as to industries and borrowers, and that no firm in which the bank's directors are interested receives undue consideration. Credit files relating to borrowers should be examined as to unsecured or insufficiently secured loans. In examining real estate loans the following documents must be inspected by the examiner: the bond, the mortgage, the deed, the title search, appraisals, insurance policies assigned to the bank (if insurable improvements exist), and receipted tax and water bills or evidence that they were examined by the bank. Any of the required documents which should support a loan, and which are out for any reason, should be verified by correspondence. All questionable loans should be reviewed with an officer of the bank. As a result of the foregoing studies the examiner will be in a position to determine the sufficiency of reserves provided against the bank's loans.

The examination of the depositors' ledgers is an important part of a bank examination, and may be done either by sending out requests for confirmation of balances on all or selected accounts with the monthly statements in the case of commercial banks, or by examination of passbooks at the time they are presented by a customer when making a deposit or withdrawal or for any other reason. Dormant accounts in particular should receive critical study as they offer opportunities for manipulation. A trial balance of the depositors' ledgers should be run and proved to individual controls. The latter operation is one which can be effected only after banking hours and the efficiency of the system maintained by the bank for keeping its depositors' ledgers will determine the extent of the examination to be undertaken. Before this division of the examination is completed an aged schedule of overdrafts, if any, should be prepared and studied in relation to the depositor's financial standing.

In the case of banks which are members of the Federal Reserve a computation of the legal reserve should be made, and the sufficiency of the reserve determined.

Income and expense accounts of a bank do not differ sufficiently from any other business to call for a special method of analyzing and vouching. Any matters of importance disclosed by the examination of these accounts should be reported to the proper officers of the bank, and, if significant, should be mentioned in the report of the

examination.

When his examination is completed the examiner should prepare and submit a report to the Chairman of the Examining Committee, by whom he was designated to conduct the work.

INEQUALITIES

I think the most dangerous things in the world and the ones that have caused continual turbulence are the inequalities, the senseless, man-made inequalities that could be done away with—social inequality, economic inequality, race inequality, sex inequality—they mean not only unhappiness, but terrible waste. It may be suggested that after these inequalities are abolished, the real inequalities begin, and with that I agree. But the others are inherent inequalities which have always benefited the race—inequality of mind, of emotional powers, of strength, or of beauty. In our time it looks as if economic equality is the one we are first headed toward abolishing. But I believe, of all the inequalities, sex inequality may have caused the most waste.

—MARY COLUM, in *"Life and the Dream."*

(Doubleday & Co.)

DETECTION OF IRREGULARITIES

An enterprising company auditor took advantage of an opportunity offered him when functioning in a relief capacity.

As traveling auditor for a dairy company he made periodical visits to the branches. On such visits he took it upon himself to make the bank deposit. As many of the receipts were in currency he was able in each instance to pocket a sizeable sum. On his return to the home office he altered the report received from the branch to agree with the amount deposited. The thefts were discovered when on one occasion he failed to get back to the home office in time to intercept a branch report for alteration.

This is one of the cases where a system of internal control did not function as well as it appeared at the time of survey. Internal control which is not rigidly followed during lunch hours, vacations, and even during auditors' visits may be no control at all.

ETHICS

We recommend for your reading a very fine article on *The Realities of Professional Ethics* by John L. Carey, secretary of the American Institute of Accountants, which appeared in the April issue of *The Accounting Review*.

C. E. D. SCHOLARSHIP AWARDED TO AN ACCOUNTING MAJOR

By JANE E. GOODE, C.P.A.



Frances Kreiling

After interviewing a number of young women preparing for various fields of business and professional activity, the Los Angeles Women's Division of the Committee for Economic Development awarded its scholarship to an accounting major at the University of California at Los Angeles. Frances Kreiling, the winner and first recipient of the award, had two years of university training and three years of business experience before joining the U. S. Marine Corps Women's Reserve and left the corps with a commission as second lieutenant in December 1945.

Miss Kreiling was presented to the Los Angeles chapter at the March meeting and a tea was held in her honor on Sunday, April 20th. That chapter is pleased that the scholarship was won by a prospective accountant and hopes to be of service to her.

Both our national organizations send congratulations and best wishes to Frances Kreiling. Long ago we recognized our responsibility to young women training for professional and vocational expression as well as for economic maturity. It is always gratifying to learn of other groups who are rendering tangible assistance to the youth in our communities — assistance

which involves not only individual benefit but insures continuity of leadership toward the goals we all hope to achieve. As accountants we are familiar with many of the studies published by the Committee for Economic Development for the purpose of stimulating commerce and industry to make their fullest contribution towards the achievement and maintenance of economic security for people in all walks of life. We know, also, that what we tell commerce and industry about its affairs controls, to a very large extent, that contribution. We are, therefore, privileged to share with the Los Angeles Women's Division of the CED (which, incidentally, is the only women's division in the country) an influence in the life of a very promising and charming young woman. We hope that our accomplishments will be an inspiration to Miss Kreiling and that she may have the wisdom and the will to greatly further the objectives of our organizations.

Jane Goode is a past president of ASWA and is a member of Los Angeles chapter. She is also Chairman of the Accounting Group of the Los Angeles Women's Division, Committee for Economic Development and was one of the speakers at the presentation of the scholarship to Miss Kreiling. The Los Angeles Times of March 30, 1947 gives an interesting account of the ceremony and excerpts from Miss Goode's speech.

NEW CPA'S

Congratulations to the following, who passed the November examinations:

Alice Purdy Hungate Cheever, 604 Paterson, Chicago.

Frances Everet O'Riordan, 3834 Kirk Ave., Skokie, Ill.

Doris Hazel Parks, 204 Raitt Hall, U. of Wash, Seattle 5.

Virginia King Wheeler, 6035 N. Winthrop Ave., Chicago.

Patricia Clare Lynch, 950 Pennsylvania St., Denver.

Grace S. Highfield, 65 S. 4th St., Columbus, Ohio.

WHAT'S NEW IN READING?

Nothing in business can or should be allowed to work mechanically without constant judgment testing.—Thornton F. Bradshaw.

By THEIA A. GEBBIE, Beverly Hills, California

THE CONTROL OF PAYROLL FUNDS, an article in *The Journal of Accountancy* for February 1947, written by George W. Adlam of the Todd Company.

Since checks used for the payment of wages probably outnumber checks issued for all other purposes, and since check crooks are on the increase, there is every reason to heed Mr. Adlam's suggestions in this interesting article. That payroll thefts are often committed by a company's own employees is evidenced by an axiom of insurance claim investigators to "investigate the trusted employee first." He is exempted from suspicion only when control measures prevent payroll padding.

Measures of control suggested range from the investigation of those to be employed in the payroll department, through the safeguarding of blank checks, the signing of checks, the distribution, the bank reconciliation, and finally the audit. The safeguards suggested may be just as readily applied to general check disbursement and are worth investigating.

THE HOW AND WHY OF PAYROLL RECORDS, an original research project by The Frank M. Knox Co., Inc., Tulsa, Okla. (Ross-Martin Company. 1946. 134 pages. \$2.)

This book analyzes record-keeping problems from both legal and business standpoints. Government forms dealing with employment and payroll tax returns are discussed and illustrated. The basic payroll and personnel laws are discussed and suggestions given as to the personnel records which must be kept for organizations of various sizes.

BLUEPRINT FOR PUBLIC RELATIONS, by Dwight Hillis Plackard and Clifton Blackmon. (McGraw-Hill Book Company, Inc., New York. 1947. 340 pages.)

This manual on public relations was prepared as a guide for those engaged in publicity and public relations work — a professional service claimed to be a product of the twentieth century. However, it is so written as to be pleasantly helpful to other professions. The discussion on gaining confidence could well adapt itself to the accounting profession. What auditor does not want the confidence of his clients and their employees? The key to that con-

fidence is sincerity, honesty, straightforwardness, and willingness to learn a lot. The authors continue, "We must learn to talk with people in their own language and from the point of view of their interest."

For a little inside on publicity and public relations, this is good reading and always applicable to some phase of business.

THE KISS OF DEATH, by Lawrence P. Bachmann. (Alfred A. Knopf, New York. 1946. \$2.50. 276 pages.)

For an engrossing and exciting evening of reading, make a date with this book and a cozy armchair. The setting of the story is a hospital and a laboratory—with psychological tests playing a lead role.

The story begins with a few friends experimenting with one such test during a gathering for that purpose. The results reveal to a latecomer that one of the group has a fear of being murdered, and that any of three other participants might be the murderer. In his attempts to stop and then solve the crime, the leading character carries us through a maze of fascinating psychological facts.

BUT LOOK, THE MORN—by MacKinley Kantor. (Coward-McCann, Inc., New York. 1947. 308 pages.)

To each of us, our own childhood memories are treasures to examine at intervals; and Mr. Kantor shares his youthful experiences with us in *But Look, The Morn* so that we laugh and cry with him and drag forth our own past history to compare, and thus, to cherish the more. We feel his yearning for a box of candy, all his very own; we recollect our admission into the church when we read of his amusing immersion within the Baptist fold; we compare the schools of today with those of younger days when Mr. Kelly's reforms are detailed. We see a mother's struggles to raise her two children without their father, through the eyes of the son who loved her.

From the man who wrote the story for the Academy Award movie "The Best Years of Our Lives", we get many glimpses of the problems of those born in the early nineteen-hundreds, and we are refreshed by the simple and wholesome, yet charming and keen, portrayals.

THE WOMAN C. P. A.

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